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Message Text

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11
ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 IO-14 PA-04 PRS-01

USIA-15 L-03 SS-20 DRC-01 /158 W
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R 242014Z MAY 74
FM AMEMBASSY SANTIAGO
TO SECSTATE WASHDC 8697

C O N F I D E N T I A L SANTIAGO 2928

E.O. 11652: GDS
TAGS: EFIN, ECON, CI
SUBJ: IMF TEAM VISIT TO CHILE

1. SUMMARY. IMF TEAM HEADED BY CARLOS SANSON VISITED CHILE MAY 11-24 TO LOOK AT STATE OF CHILEAN ECONOMY. SANSON HAS CONCLUDED THAT GOC IS MAKING CONSCIENTIOUS EFFORT TO IMPLEMENT STAND-BY AGREEMENT AND HAS HAD GREAT SUCCESS IN FOREIGN SECTOR. HOWERVER, DOMESTIC PROBLEMS, PRINCIPALLY INFLATION, ARE SERIOUS AND WILL TAKE LONGER TO RESOLVE. IMF WILL PROBABLY SEND STAFF MEMBERS TO CHILE TO TAKE ANOTHER LOOK AT SITUATION IN SEPTEMBER AND MAKE RECOMMENDATIONS ABOUT CHANGES, IF ANY, NEEDED IN GOC POLICIES. END SUMMARY.

2. SANSON TOLD ECONOMIC COUNSELOR ON MAY 24 THAT HE THOUGHT GOC ACTIONS IN RATIONALIZING EXCHANGE RATE POLICY, IMPORT REGULATINS, ETC., HAD BEEN EXCELLENT, ALTHOUGH HE WAS DISTURBED THAT IFIS (PARTICULARLY IBRD) HAD NOT DONE MORE FOR CHILE SO FAR. IMF LIMIT OF $45 MILLION ON NET NRE BORROWING OF LESS THAN ONE YEAR IS BEING MET, BUT $180 MILLION CEILING ON 1-15 YEAR CREDITS MAY BE EXCEEDED.

3. INTERNAL DISEQUILIBRIA, WHICH ARE CAUSING HIGH RATE OF INFLATION, ARE LIKELY TO PERSIST FOR SOME TIME - PERHAPS INTO
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1977 - IN SANSON'S VIEW. SINCE GOC CANNOT SQUEEZE REAL

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INCOME TOO MUCH, TEAM HAS RECOMMENDED THAT FISCAL POLICY
BE TIGHTENED FURTHER AS MAJOR ANTI-IFNLATIONARY TOOL. SOME
BUDGETARY SAVINGS ARE POSSIBLE ON CURRENT EXPEF ITURES, BUT
STRINGENCY WILL FALL MAINLY ON PUBLIC SECTOR INVESTMENTS.
EVEN WITH RECOMMENDED FISCAL RESTRAINT, 1974 INFLATION WILL
REACH 200 PERCENT. HE SAID HE HAD DISCUSSED THIS WITH ALL
JUNTA MEMBERS AND THEY SEEMED TO UNDERSTAND NATURE OF PROBLEM.

4. TEAM DOES NOT PLAN TO MAKE WRITTEN REPORT TO IMF DIRECTORS
CONCERNING THIS VISIT NOR WILL THEY RECOMMEND CHANGES AT THIS
TIME IN STAND-BY AGREEMENT. HALF OF $95 MILLION STAND-BY
CREDIT HAS BEEN DRAWN BY GOC AND ANOTHER $20 MILLION IS
AVAILABLE IN SEPTEMBER. REMAINDER THEORETICALLY CAN BE DRAWN
IN DECEMBER. SANSON AND HIS COLLEAGUES WILL PROBABLY COME
AGAIN TO CHILE IN SEPTEMBER TO TAKE ANOTHER LOOK AT ECONOMIC
PROGRAMS AND MAKE RECOMMENDATIONS ON POLICY CHANGES NEEDED,
IF ANY.

5. IN SANSON'S OPINION PARIS CLUB MEETING IN NOVEMBER TO
LOOK AT 1975 DEBT RESCHEDULING IS NOT PRACTICAL IF CREDITORS
WANT FUND GENERAL SURVEY OF CHILEAN ECONOMY TO USE AS
BASIC BACKGROUND DOCUMENT. HE BELIEVES RESCHEDULING MEEING
EARLY IN 1975 IS MORE LIKELY.

6. COMMENT: SANSON'S COMMENTS ON STATE OF ECONOMY CLOSELY
PARALLEL EMBASSY ANALYSIS (SEE SANTIAGO A-95). HE JUDGES THAT
GOC IS MAKING DETERMINED EFFORT TO CARRY OUT ECONOMIC RECOVERY
PROGRAM AND ON BALANCE HAS DONE PRETTY GOOD JOB CONSIDERING
MAGNITUDE OF PROBLEMS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGREEMENTS, POLICIES, INFLATION, PERSONNEL TRAVEL, VISITS, FOREIGN EXCHANGE, MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 24 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GarlanWA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974SANTIA02928
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740131-0929
From: SANTIAGO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740519/aaaaaqqh.tel
Line Count: 91
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GarlanWA
Review Comment: n/a
Review Content Flags:
Review Date: 24 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 APR 2002 by kelleyw0>; APPROVED <04 MAR 2003 by GarlanWA>
Review Markings:

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30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: IMF TEAM VISIT TO CHILE
TAGS: EFIN, ECON, OTRA, CI, IMF, (SANSON, CARLOS)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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